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MACROECONOMIC POLICY QUESTIONS

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION

AGENDA FOR DEVELOPMENT

Letter dated 31 August 1994 from the Permanent Representative of Indonesia to the United Nations addressed to the Secretary-General

In my capacity as Chairman of the Coordinating Bureau of the Non-Aligned Movement, I have the honour to transmit herewith the following documents of the Movement of Non-Aligned Countries:

(a) Report of the Chairman of the Ministerial Meeting of Non-Aligned Countries on Debt and Development: Sharing of Experiences, 13-15 August 1995, Jakarta (annex I);

(b) Statement by Mr. Gamani Corea introducing the report of the Movement of Non-Aligned Countries Ad Hoc Advisory Group of Experts on Debt entitled "The continuing debt crisis of the developing countries" (annex II);

(c) Executive summary (annex III).

I should be grateful if you would have the text of the present letter and its annexes circulated as a document of the forty-ninth regular session of the General Assembly, under items 90, 91 and 95 of the provisional agenda.

(Signed) Nugroho WISNUMURTI
Permanent Representative

A/49/150.

Annex I

THE MINISTERIAL MEETING OF NON-ALIGNED COUNTRIES ON *"DEBT AND DEVELOPMENT: SHARING OF EXPERIENCES"*

13-15 August 1994
Jakarta, Indonesia

REPORT OF THE CHAIRMAN OF THE MEETING

I. Introduction

1.1 The Tenth Summit of Heads of State and Government of the Non-Aligned Movement, which was held in Jakarta, Indonesia, from 1 to 6 September 1992, reviewed, *inter alia*, the external debt situation of non-aligned and other developing countries. The Summit expressed grave concern about the continuing debt burden of many countries in the South, noting that the debt stock of developing countries had not only doubled in the previous decade, but had become a major impediment to the development efforts of these countries. Recognizing the generally unsatisfactory experience of developing countries in achieving effective settlements of their debt problem, the Summit, in its resolution on the external debt of developing countries, called on its members to continue their mutual consultations *"... with a view to reinforcing the efforts of developing countries to resolve the debt problem ..."*[1]

1.2 In line with the resolution of the Summit, the Chairman of the Non-Aligned Movement, H.E. President Soeharto of Indonesia, convened in Jakarta from 13-15 August 1994 a Ministerial Meeting of Non Aligned Countries on *Debt and Development: Sharing of Experiences"*. The meeting, which constituted the first ever high-level meeting on external debt of developing countries from all regions, was attended by invited Ministers and officials from 25 debt-distressed least developed countries.

1.3 In his speech at the inaugural ceremony of the Meeting,[2] President Soeharto expressed hope that the Meeting, by contributing to a better understanding of the debt situation of developing countries, will pave the way for a comprehensive and permanent

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[1] The text of the Resolution on External Debt of the 10th Summit of Heads of State or Government of the Non-Aligned Movement is found in **appendix I.**

[2] The text of President's Soeharto speech, which was adopted by the Meeting as an official document of the Meeting, is found in **appendix II of this Report.**

solution to the debt crisis. He noted that despite the end of the Cold War, and the opportunity this offered to the international community to build a more peaceful, prosperous, and equitable world order, little progress had been made in addressing the many outstanding North-South economic issues.

1.4 The President informed the invited delegations that he had, as Chairman of the Non-Aligned Movement, brought to the attention of the G-7 leaders, at both the Tokyo Summit in 1993 and at the Naples Summit in 1994, the severe debt problem of developing countries and the need for urgent action.[3] He was heartened by the positive response he had received from some of the leaders of the G-7. In addition to these initiatives, President Soeharto also informed the invited delegations that he had, under the Chairmanship of Dr. Gamani Corea, set up a NAM Ad Hoc Advisory Group of Experts on Debt, and that the Group had recently submitted its final report to him. Further, he had established another advisory Group, composed of former Indonesian senior Ministers, to assist the intergovernmental consultation process.

1.5 Following the opening session, the Meeting, under the chairmanship of Mr. Saleh Afiff, the Coordinating Minister for Economy, Finance, and Development Supervision of the Government of Indonesia, proceeded to discuss the various issues on the agenda.[4] At the start of the deliberations, the Chairman reminded delegates that the principal aim of the Meeting was to exchange views on the respective debt and debt-management experiences of their governments, with a view to identifying a set of principles and strategies that would form the basis for dialogue and negotiations with the multilateral financial institutions and the creditor countries. He also informed the meeting that in order to facilitate discussions, a number of presentations on issues related to debt and development--including a report by the Chairman of the NAM Ad Hoc Advisory Group of Experts on Debt--would be made.

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[3] Two documents, one entitled, "An Invitation to Dialogue", and the other, "Memorandum on Debt", were submitted by the Chairman of NAM to the then Prime Minister of Japan, Mr. Miyazawa, prior to the 1993 G-7 Summit in Tokyo.

[4] The agenda of the meeting and the list of speakers and the topics of their presentations are found in appendix IV. The list of participants is found in appendix V.

1.6 Prior to the start of the proceedings, a message from the Secretary-General of the United Nations, Mr. Boutros Boutros-Ghali, was read by Mr Rafeeuddin Ahmed, the Executive Secretary of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). In the message, the Secretary General expressed his appreciation to President Soeharto for convening the meeting and expressed his confidence that the Meeting would contribute to the effort of the United Nations to draw up a new comprehensive vision of development--one that would help the least developed countries to break the vicious circle of debt and dependency.[5]

1.7 This final Report of the Chairman summarizes the principal observations and views expressed by government representatives on issues related to debt and development. It also provides a summary of the key measures that government delegations believed should be taken by creditor and debtor countries, multilateral financial institutions, and the international community, at large, to resolve effectively the continuing debt problem of the debt-distressed developing countries. In addition, the Report summarizes the recommendations of the Meeting on possible areas for South-South cooperation, in the common effort of developing countries to find solutions to their debt problem.

II. Debt and Development

The Debt Problem

2.1 The Meeting was briefed by Dr. Gamani Corea, the Chairman of the NAM Ad Hoc Advisory Group on Debt, on the principal findings and recommendations of the Group's Report. Professor Nitisastro Widjojo, Economic Adviser to the Government of Indonesia, also presented a paper on the experience of Indonesia in settling its foreign debt problem, with a view to drawing out useful lessons for debt-distressed countries.[6]

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[5] The text of the message of the Secretary General of the UN to the Meeting, which was adopted by the Meeting as an official document of the Meeting, is found in **appendix III of this Report.**

[6] *The Continuing Debt Crisis of the Developing Countries: Report of the Non-Aligned Movement Ad Hoc Advisory Group of Experts on Debt* (Jakarta, August 1994). N. Widjojo, "A Once-for-All Settlement of Foreign Debt" (Jakarta, August, 1994).

2.2 ***The Report of the NAM Ad-Hoc Group of Experts on Debt***. Dr. Corea noted that the Report of the NAM Expert Group had found that the debt crisis, which had manifested itself in the early 1980s as a crisis primarily of the middle-income countries of Latin America, and as a crisis of private commercial debt, had continued in the 1990s, but in a different form. The debt crisis of the 1990s is one that mainly affects a *large and increasing* number of poor and low-income countries. It is also, in large part, a crisis of official debt--both bilateral and multilateral. Using the yardstick of *the number of countries whose arrears exceeded 20 per cent*, the NAM Report found that there were 55-60 countries in 1992 which were facing extreme difficulties in servicing their debt. Included in this group are 28 least developed countries--two thirds of the total number of countries in this category. In addition, the Report also noted that there are a significant number of other developing countries which continue to service their debt, but at a considerable economic and social cost to their development efforts.

2.3 The Report concluded that in view of the size of the stock of debt, the enormous debt service burden that it implied, and the poor economic circumstances of the large number of indebted countries, what is required is not *further debt re-scheduling, but a substantial reduction in the stock of debt*. With respect to the extent of debt relief, the Report proposes that as a broad order of magnitude the debts of 55-60 countries should be reduced by an average of 70 percent. Such a reduction would in fact correspond to the valuation of the debt instruments of the countries concerned in secondary financial markets. Dr Corea cautioned that this overall target for debt reduction should be applied in a flexible manner, and in the context of a case by case review of each country's situation.

2.4 The Report recommends that a fundamental principle that should be followed in debt reduction is that it should be applied to the *total debt stock -- private, bilateral, and multilateral*. While much experience exists regarding the cancellation of private and bilateral debt, the application of this principle would call for breaking new ground with regards to *multilateral debt*. The Report suggests that to avoid jeopardizing the credit standing of multilateral financial institutions, a number of measures such as, use of reserves, a new issue of SDRs, conversion of debts into equity investments, could be considered when implementing debt reduction.

2.5 The Report of the NAM Expert Group also made a number of recommendations regarding South-South cooperative efforts on debt. It has proposed that the countries of the South should seek to win international acceptance of a set of *broad principles* to guide the debt negotiations of individual countries. The South should also mobilize its own experts to provide *South-South technical cooperation and assistance*. The South should in addition establish a *formal mechanism* to allow developing countries to have a regular exchange of views on the debt issue. And finally, the Report proposed that it is important that *intra-South debt* be treated in a creative manner using the basic principles advanced in the Report. This could, *inter alia,* positively influence debt negotiations with the North.

2.6 ***The Indonesian Debt-Settlement Example***. In his paper, Professor Widjojo Nitisastro presented the experience of Indonesia in finding in 1970 a durable and permanent solution to its debt problem. In the mid-1960s, Indonesia was facing serious economic difficulties, including a severe balance of payments crisis. As it became apparent that Indonesia would not be able to service its debt, it managed to secure in 1966 a re-scheduling agreement with the Paris Club on debt repayments due in 1967. But as the rescheduling covered only one year, this necessitated annual negotiations for debt repayments coming due in subsequent years. This situation created a sense of uncertainty for government fiscal and monetary policy, and also for the private sector.

2.7 An agreement was reached with creditors that this annual debt re-scheduling process was unsustainable, and that a more durable long-term solution was required. With the assistance of a third party, the following *principles* were adopted to help settle Indonesia's debt problem: *(i) acceptance of a once-and-for-all long-term debt settlement that would not be subject to further re-negotiation, (ii) the debt settlement should ensure the restoration of the credit worthiness of the country, (iii) the debt settlement should be based on a strict application of the principle of non-discrimination.* These principles were used to arrive at a final settlement in 1970.

2.8 Since the 1970 agreement, no further debt re-scheduling has been required. Professor Widjojo noted that since then careful debt management and timely implementation of economic reforms and structural adjustments, has enabled Indonesia to avoid the re-

emergence of another foreign debt crisis in the last 24 years. Using the Indonesian example, he noted that what is required for most severely indebted developing countries today, is a substantial debt and debt service reduction in a single operation instead of in stages, in order to arrive at a final settlement of the debt problem. Moreover, in order to achieve a reasonable rate of economic growth, the final debt settlement and new flows of financial resources on favorable terms have to be worked out as an integral component of a comprehensive external financing package.

Major Observations and Conclusions on Debt

2.9 The Meeting welcomed the Report of the NAM Ad Hoc Advisory Group of Experts on Debt. It endorsed fully the findings of the Report and its recommendations concerning the principles that should be followed to resolve the debt of debt-distressed developing countries. It requested the NAM chair country, Indonesia, to make the Report widely available to other non-aligned and other governments, to the G-7 and to other creditor countries. It also requested that the Report be sent to the Managements and Executive Directors of the IMF and the World Bank, to the Group of 24, to the Secretary General of the United Nations, and to the United Nations General Assembly for use by the latter as an official document in the deliberations of the Second Committee. The Meeting stressed the need to have the Report translated into other languages to assure its wider circulation and use in the different regions of the South.

2.10 The Meeting also agreed that the experience of settling the Indonesian external debt problem in 1970 provide useful lessons and guidelines that still retain their relevance today. And in response to the interest expressed by some delegations, the Meeting appreciated the offer made by the Government of Indonesia to provide technical assistance to help debt-distressed countries strengthen their debt management and debt-negotiation capacity.

2.11 The Meeting, in addition, made the following observations and arrived at the following major conclusions:

- ***The Debt Situation Today:*** Despite many attempts to reduce the debt and debt-service of debt-distressed countries, the Meeting noted that the debt situation in many countries continues to be severe, and remains a veritable impediment to economic

growth and development. As countries are obliged to give priority to servicing their external debt, governments have been forced to reduce essential public investments, particularly on physical and social infrastructure. The Meeting noted that this has led to a sharp increase in poverty, and to a decline in basic social indicators. Moreover, despite repeated attempts at debt-rescheduling, and some debt-relief, it is clear that the remaining debt stock of poor developing countries remains so high that the possibility of it being settled in full is virtually nil.

- ***Debt Reduction vs. Debt Rescheduling:*** The Meeting noted that the preferred approach to the debt problem by most creditors has largely been debt-rescheduling, although debt reductions of some bilateral debt has also occurred. For some countries, this approach has, over the course of the last decade, entailed *annual negotiations and re-negotiations* on their external debt. While some progress has been made in reducing the debt stock and in reducing the debt-service, the Meeting agreed that debt re-scheduling has failed to alleviate the heavy debt servicing burden, particularly if cut-off dates are not sufficiently advanced. Moreover, it has, in some instances, contributed to increasing the debt stock and hence to the postponement of the resolution of the debt problem, and the restoration of credit worthiness and external viability. The Meeting endorsed the need for substantial debt reduction, as opposed to repeated debt rescheduling, as the most appropriate approach for the resolution of the debt crisis of developing countries.

- ***General Principles for Debt Reduction:*** The Meeting endorsed the following principles in considering debt reduction:

  - *a once-and-for-all arrangement for settling all outstanding debt;*
  - *the application of debt reduction to all categories of debt, including multilateral debt;* and
  - *the application of the above principles as well as an adequate degree of debt-reduction for all countries, although within such an overall framework, there will necessarily be a case-by-case approach in dealing with the debt of individual countries.*

In addition, the Meeting endorsed the use of third parties to undertake an assessment of the debt problems of countries and to put forward recommendations on debt reduction, the inflow of new resources, and the restoration of credit-worthiness.

- ***The Need to Address Multilateral Debt:*** The Meeting agreed that debt reduction efforts, if they are to result in the easing of the debt burden of the debt-stressed countries, must also *include multilateral debt*. Debts owed to multilateral financial institutions now constitutes the bulk of outstanding debt for many countries, and the servicing of such debt accounts for a large share of debt service payments. Hence, unless measures are taken to reduce multilateral debt and the servicing of such debt, it will be impossible to provide effective debt reduction measures for many poor countries.

- ***Debt Owed to the Former Soviet Union (FSU):*** Several developing countries owe substantial amounts of debt to the Former Soviet Union. This debt has now been assumed by Russia. The Meeting agreed that debts incurred to the FSU for development purposes should be treated in the same manner as other debts, particularly as Russia itself is now seeking debt relief from its creditors. For some poor debt-distressed countries, however, as a high proportion of the debt owed to the FSU was incurred for military purchases during the Cold War era, there is a need for a special and separate consideration of such debts.

- ***Debt Relief, Economic Reform, and New Resources:*** While substantial debt reduction is a necessary condition to allow countries to begin to devote their resources for development, the Meeting noted that debt reduction alone will not result in economic growth and development. The Meeting agreed that, in the light of poor economic policies that some countries had pursued in the past--and the illuminating lesson of Indonesia in this respect--countries will need to put sound economic policies to restore growth and external viability. In particular, the Meeting agreed that they should seek to restore macroeconomic stability, through fiscal and monetary discipline, if they are to create the necessary conditions for growth. Equally important, the Meeting agreed that the international community will need to increase the supply of concessional funds and help create a more favorable international economic environment to enable these countries to achieve high rates of economic growth, without relapsing into a new debt crisis.

- ***South-South Cooperation:*** The meeting, benefitting from the presentation of Dr. Emil Salim, the former Minister of Population and Environment in the Government of Indonesia, strongly supported the need for greater South-South cooperation on debt

issues. It recognized that the bargaining power of the debt-distressed countries would be considerably strengthened if they were able to cooperate on the different aspects of the debt problem. Towards this end, the meeting called on members of the Non-Aligned Movement to undertake the following: (i) to continue convening meetings, such as the present one, in order to keep the debt situation under regular review, and to exchange views and experiences, and adopt common positions, (ii) engage creditor countries in the appropriate international fora to begin discussions that could lead to the *adoption of a common set of principles* for future debt negotiations, (iii) strengthen, through the office of the Chairman of the Non-Aligned Movement, *technical cooperation* among developing countries on debt management and debt negotiation techniques, (iv) strengthen *bilateral cooperative arrangements* among countries on debt and development issues, and (v) continue and strengthen *high-level policy consultations* on external debt.

Other Debt-Related Development Issues

2.12 In addition to the major conclusions reached by the Meeting on debt issues, delegates also had the opportunity to discuss various other debt-related development issues. The discussions were facilitated by presentations by former Senior Ministers of the Government of Indonesia who were intimately involved with such issues.

- ***Debt, Aid, and Conditionalities***. This topic was introduced by Professor Mohammed Sadli, the former Minister of Mines and Petroleum, who elaborated on recent developments in these three areas. The Meeting expressed concern that as a consequence of the increasing debt burden of developing countries, and high debt service payments, net transfers to developing countries with serious debt-servicing problems has declined over the last decade, reaching a net negative transfer of $5.4 billion in 1992. The decline in net transfers had affected both private debt and official debt-including transfers from multilateral financial institutions. The Meeting also expressed grave concern with respect to the proliferation of the conditionalities attached to the transfer of resources from developed countries and multilateral financial institutions. While conditionalities related to the use of resources are necessary and legitimate, and could also have a beneficial impact in so far as they impose discipline on the use of resources, the Meeting rejected the application of

other political or ideologically-motivated conditionalities. There is thus an urgent need to reduce the number and type of conditionalities, and to limit conditionalities to the essential objective of ensuring that resources are used for their intended purposes.

Designing and Implementing Structural Adjustment Programs. The Indonesian experience with designing and implementing structural adjustment programs was presented by Dr. Ali Wardhana, the former Minister of Finance of the Indonesian Government. It was emphasized that economic stabilization had to precede adjustment, and this was achieved in the case of Indonesia through two policy measures: elimination of budget deficits and the full convertibility of the rupiah. The adjustment program in Indonesia which was entirely designed internally had the following three features: (i) getting prices right (ii) letting markets work, and (iii) reforming public institutions. The Meeting took note of the impressive achievements of the self-imposed adjustment program of Indonesia, with individual delegates showing keen interest in learning from the Indonesian example. While accepting the imperative of getting one's 'economic house in order', delegates noted the difficulties that they had faced in implementing adjustment programs designed and largely implemented at the behest of the international financial institutions. The Meeting noted the importance of each country designing its own adjustment program to enable it to take fully into account its specific economic circumstances.

Domestic Resource Mobilization: This topic was introduced by Dr. Radius Prawiro, the former Coordinating Minister for the Economy, Finance, Industry, and Development Supervision. Dr. Prawiro emphasized that the Indonesian case shows that domestic resource mobilization can not be achieved without monetary stability, and that monetary stability had to be supported by appropriate fiscal (taxation) and real-sector policies. He elaborated on the success that Indonesia had registered with respect to domestic resource mobilization through a mix of such policies, noting that Indonesia's overall development policy was guided by the three principles of stability, equity, and growth. Data was provided to indicate that considerable resources, in both the public and private sectors, are now being mobilized. The Meeting took note of the considerable progress that Indonesia had made, with several delegations expressing interest to learn more from the monetary, fiscal, tax, and institutional-building experiences of Indonesia. Several delegations also indicated the

progress that their country had made in following similar policies.

- ***Trade and Investment Policies***. The topic was introduced by Dr. Suhadi Mangkusuwondo. Elaborating on the Indonesian experience in promoting trade and investment, Dr Suhadi showed that a competitive exchange rate regime, and supporting legislation to promote investment, had helped Indonesia diversify its exports from one relying primarily on primary commodities to manufactured goods. The Meeting expressed interest in the progress that Indonesia had made in this sector, with individual delegations expressing a wish to learn further from Indonesia's experience.

III. Concluding Remarks

3.1 Delegates at the Meeting expressed their deep appreciation to H.E. President Soeharto and to the Government of Indonesia for the opportunity given to them to come to Jakarta and to have a frank and open discussion on their respective debt experiences and problems. They were particularly delighted at the opportunity the Meeting gave them to set down principles and guidelines which, if implemented, could lead to the effective resolution of the external debt problem of many developing countries. In this connection, delegates expressed their special appreciation for the leadership role, as well as for the keen sense of responsibility, that the Government of Indonesia, as the chair of the Non-Aligned Movement, has shown on the issue of external debt and other development matters. Delegates were delighted to note that, within the space of just two years, the Government of Indonesia is well on its way to implementing those resolutions, which required follow-up, of the 1992 Summit of the Heads of State or Government of the Non-Aligned Movement.

3.2 Delegates were also particularly pleased to have had the opportunity to learn first-hand from the experiences of Indonesia and other countries. They appreciated the opportunity to learn from the unique manner in which Indonesia handled its external debt problem, and also from its successful effort in combining stability, equity, and growth -- the three pillars of its development philosophy. Indonesia has shown other developing countries that the pursuit of comparable policies could indeed permit countries to make rapid economic turnarounds. It is thus with renewed hope and confidence that this Meeting of Non-Aligned

countries calls on the international community -- and in particular the advanced creditor countries -- to consider the recommendations it has put forward for the speedy resolution of the external debt problem -- a problem that continues to affect adversely a large number of developing countries.

Appendix I

RESOLUTION ON EXTERNAL DEBT

The Heads of State or Government,

Having reviewed the debt situation of Non-Aligned and other developing countries,

Expressing grave concern over the doubling of the stock of external debt of developing countries over the last ten years and their continuing excessive debt service burden,

Noting that the debt problem has resulted in a major drain on the resources of developing countries, and has, in many cases, blocked their development, and hence their ability to improve social and economic conditions.

Recognizing the generally unsatisfactory experience of developing countries in implementing a variety of debt-relief strategies,

Considering that it is essential for members of the Non-Aligned Movement and other developing countries to strengthen their efforts to work out comprehensive and durable solutions to the debt problem.

1. *Note* that consultations on the problem of external indebtedness, such as those that took place in the Consultative Meeting of Experts on the External Debt of the Non-Aligned and other developing countries held in Peru in 1986 and Morocco in 1988, had been very useful.

2. *Decide* to continue this consultative process at a high intergovernmental level in order to draw up policy guidelines with a view to reinforcing the efforts of developing countries to resolve their debt problem, which will give priority, *inter alia*, to the following:

- measures that will facilitate the cancellation of the debt of the least developed countries;

- the resolution of the debt burden of other developing countries (including those which have made great efforts to meet their debt obligations) in a manner which facilitates their recovery, growth and development;

- measures to recycle part of the debt for financing economic and social projects;

- other actions to reinforce South-South cooperation to reduce the burden of debt servicing; and

- devising a coordinated tripartite approach involving developing debtors, developed creditor countries and multilateral financial institutions in order to resolve the debt problem.

3. *Further decide* that in order to assist the high intergovernmental level process, an *ad hoc* advisory group of experts be established to study in depth all relevant aspects of the debt problem and to make policy guidelines.

Appendix II

STATEMENT
BY
PRESIDENT SOEHARTO
OF THE REPUBLIC OF INDONESIA
AT THE INAUGURAL CEREMONY OF
THE MINISTERIAL MEETING
OF NON-ALIGNED COUNTRIES ON DEBT AND
DEVELOPMENT
AT THE STATE PALACE

(Jakarta, 13 August 1994)

Excellencies,

Distinguished Delegates, Ladies and Gentlemen;

It is indeed an honour for Indonesia to host this Ministerial Meeting of Non-Aligned Countries on Debt and Development. Furthemore, it is also a great pleasure for me to extend, on behalf of the Indonesian Government and people, my warmest welcome to this country and express my sincere hope that your stay here will be a pleasant and fruitful one.

I am happy to see the presence of many of the distinguished guests who come from far away places to attend this meeting. The presence of all you here is a reflection of the importance of debt and development --subjects which will be discussed during the current meeting-- to our respective countries and the Non-Aligned Movement in general. In addition, it also shows our strong common commitment.

With this meeting, Indonesia does not intend to take over the task of finding a solution to the debt problem of the

developing countries. We are gathered here to have an exchange of views and experiences on debt and development.

Hopefully, the better understanding that emerged from this meeting will pave the way for a comprehensive and permanent solution to the debt and development issues.

Excellencies, Ladies and Gentlemen;

The end of the Cold War has eased the ideological and military conflicts between the major powers. Today, the international community has the opportunity to build together a more peaceful, advanced, prosperous and equitable world order. However, the positive developments in the international politics and East-West relationship have not yet been followed by commensurable efforts in the economic area and North-South relationship.

At present, the world economy is still inflicted by new and veiled form of protectionism, low commodity prices, declining flow of funds, insufficient technological access and heavy debt servicing. These are all serious problems that are continuously facing the developing countries. In this connection, we are concerned that all of this has worsened the economic situation of the least-developed countries, whose millions of its population are trapped in poverty and millions others are suffering from hunger.

In my capacity as Chairman of the Non-Aligned Movement, I have the duty to take steps aimed at carrying out th Decisions and Resolutions of the 10th Summit of the Non-Aligne Movement held in Jakarta in September 1992. In the Summi Leaders of the Movement have voiced their deep concern abo the extremely huge debt burden. They have also showed the readiness to actively conduct a dialogue with the advanced countries on important global economic issues, including and especially on external debt crisis.

Based on this fact, as Chairman of the Non-Aligned Movement, I went to Tokyo on the eve of the G-7 Summit in order to meet with the then Prime Minister Miyazawa, Chairman of the G-7, to submit the messages of the Non-Aligned Movement entitled "An Invitation to Dialogue" and "Memorandum on Debt" to the leaders of the advanced countries. In that meeting, the Chairmen of the G-7 and Non-Aligned Movement have agreed to adopt the appropriate approach in dealing with trade, investment and strategy for debt solution. The initiative of the Non-Aligned Movement to make a constructive approach aimed at solving problems of common interest has had a positive response from the G-7, as reflected by the Tokyo Summit Economic Declaration.

Before the holding of the Summit of the G-7 in Naples last July, I have reminded again the G-7 about the debt issue that becomes our common concern. As a result, the G-7 declared that they are inclined to reduce the debt stock and increase the concessions to countries suffering from specific difficulties.

It is important for us to learn from past experiences and draw lessons from countries which have succeeded in overcoming the debt crisis and managing its debt satisfactorily.

In this connection, Indonesia, as a country that once had a bitter experience as a debtor nation, is keen on sharing her experience. We hope that our experience in solving the debt problem can contribute to the process of finding a comprehensive and permanent solution to the debt issue of the developing countries.

In the context of the exchange of views and experiences on debt and development, I have appointed, at a national level, a Group of Experts consisting of experienced experts on debt and development. While as Chairman of the Non-Aligned Movement I have formed an Advisory Group of Experts on Debt comprising of a number of experts and it is headed by Dr. Gamani Corea. The Advisory Group has submitted its reports to me. For this, I would like to express my highest appreciation.

I hope that you can deliberate on this report during the Meeting on Debt and Development you are now holding.

I hope that your discussions during this meeting will be a valuable contribution to the enhancement of wider partnership for development and extremely useful to save the global economy from chaos. This is the reason why I am convinced that you will exert all your expertise and dedication to ensure the success of our common endeavours in solving the debt and development problems.

The dignity, honour, living standard improvement and lifes of millions of people all over the world will basically be determined by the success of our effort.

In conclusion, I hereby declare the Ministerial Meeting of Non-Aligned Countries on Debt and Development officially opened.

May God Almighty bestow His blessings on all of us.

Thank you.

Appendix III

MESSAGE FROM MR. BOUTROS BOUTROS-GHALI,
SECRETARY-GENERAL OF THE UNITED NATIONS,
TO THE MINISTERIAL MEETING OF THE NON ALIGNED
COUNTRIES ON DEBT AND DEVELOPMENT:
SHARING OF EXPERIENCES

Jakarta, 13-15 August 1994

(To be delivered on behalf of the Secretary-General
by Mr. Rafeeuddin Ahmed)

I send warm greetings to all those participating in this Ministerial Meeting of the Non-Aligned Movement on Problems of Debt and Development of the Least Developed Countries.

I am gratified that President Soeharto has convened this meeting. The "debt crisis" is a term that was coined in the early 1980s, but the problem of debt persists and remains an impediment to development. The heavily-indebted least developed countries clearly have experiences to share and much to learn from each other about problems of debt and development. Other countries of the world can learn much from the deliberations of this Jakarta Conference.

The Non-Aligned Movement established itself as an independent voice during a time of great pressure on the developing world to conform to the views of one political bloc or another. The Non-Aligned sought a space for independent political and economic analysis and action in the face of grave political tensions that were a threat to life itself on our planet. While the end of the cold war has altered the international context, our need for independent insight remains as urgent as ever.

The debt situation of the least developed countries is diverse. The diversity of States that comprise the Non-Aligned Movement enables it to comprehend the variety of issues affecting least developed countries and to make their situation known to a wider audience. Considerable progress has been made since the early 1980s in the international treatment of the debt of developing countries. Yet better efforts and more concessional restructuring of the debt are needed.

The Non-Aligned Movement has long been an effective advocate of the essential connection between socio-economic and political developments. You recognize that debt relief alone will not be enough to surmount the obstacles to progress faced by least developed and developing countries. Indeed, the danger exists that a narrow focus on debt relief may be used as an excuse or substitute for declining disbursements of official development assistance. In order to help the least developed countries break the cycle of debt and dependency, we need a new, comprehensive vision of development.

In the past few years of responding to the outbreak of

conflict in many countries, the United Nations has come to recognize and act upon a policy continuum between peace-building and development. Our development vocation goes well beyond addressing individual national or ethnic crises. We have been charged ever since the Charter of the United Nations was adopted to "employ international machinery for the promotion of the economic and social advancement of all peoples". In my report to the General Assembly entitled "An Agenda for Development", I hoped to contribute to the search for a new and comprehensive vision of development. Only with such a vision will we see how to help least developed and developing countries reduce their aid dependency as well as their indebtedness. Only by pursuing such a vision can all the countries of the world build a firm foundation for sustainable human development. This Conference in Jakarta can be a signal contribution to this great enterprise.

I extend my best wishes for a most productive and successful meeting.

Appendix IV

AGENDA

Saturday, 13 August 1994

09.00 Inaugural Address by H.E. Soeharto, President of the Republic of Indonesia

11.00 - 12.00 Opening Session

- Opening Statement by Dr. Saleh Afiff, Minister Coordinator for Economy, Finance and Development Supervision of Indonesia
- Message by the UN Secretary-General delivered by Mr. Rafeeuddin Ahmed, Special Representative of the UN Secretary-General
- Introducing the Report of the NAM Ad Hoc Advisory Group on Debt by Dr. Gamani Corea, Chairman of the Advisory Group

14.00 - 17.00

- Sharing of Experience on Debt Rescheduling and Debt Reduction
  Lead Speaker : - Dr. Widjojo Nitisastro
- Debt, Aid and Conditionalities
  Lead Speaker : - Dr. Mohammad Sadli

Sunday, 14 August 1994

09.00 - 12.30

- Discussion of the Report of the NAM Ad Hoc Advisory Grou; of Experts on Debt
- Designing and Implementing Structural Adjustment Programmes
  Lead Speaker : - Dr. Ali Wardhana

14.00 - 17.00

- Domestic Resource Mobilization
  Lead Speaker : - Dr. Radius Prawiro

- Trade and Investment Policies
  Lead Speaker : - Dr. Suhadi Mangkusuwondo

Monday, 15 August 1994

09.00 - 12.30

- South-South Cooperation on Debt and Development
  Lead Speaker : - Dr. Emil Salim

Closing Session

Appendix V

LIST OF PARTICIPANTS

BENIN

1. Mr. Akplogan Zacharie Richard
   Director of International Organizations,
   Ministry of Foreign Affairs

2. Mr. M. Mohamed Bakary
   Director,
   Ministry of Finance

BHUTAN

1. H.E Mr. Lyonpo Dago Tshering
   Minister of Home Affairs, and
   Member of the Planning Commission

2. Mr. Wangdi Norbu
   Director of Budget and Aid Coordination,
   Ministry of Finance

3. Ms. Doma Tshering
   Head of Division, Territorial Division,
   Ministry of Foreign Affairs

CAMBODIA

1. H.E. Mr. Sam Rainsy
   Senior Minister of Economic and Finance

2. H.E. Mr. Keo Puth Rasmey
   Ambassador designate to Indonesia

3. Mr. OP. Sisawada
   Deputy Director of Asia Oceanian,
   Ministry of Foreign Affairs and International Cooperation

CAPE VERDE

1. Mr. Jose Eduardo Barbosa
Charge d'Affaires,
Embassy of Cape Verde,
Washington D.C, USA

2. Mr. Fontes Alexandre
Director General for Treasury,
Ministry of Finance

COMOROS

1. H.E. Mr. Ahmed Bourhane
Minister of Economic and Planification

2. Mr. Daoud Attoumane
Secretary General of the Ministry of Foreign Affairs and Cooperation

DJIBOUTI

1. H.E. Mr. Abdou Block Abdou
Minister of Foreign Affairs

2. Mr. Mohamed Hassan Abdillahi
Secretary General,
Ministry of Foreign Affairs

3. Mr. Mourad Mouti
Director of International Organization,
Ministry of Foreign Affairs

ETHIOPIA

1. H.E. Mr. Alemayehu Daba
Minister of Finance

2. Mr. Tekeste Birhan Gebre Michael
Head of Economic Affairs,
Prime Minister's Office

3. Mr. Weredewold Woldie
Head of Legal Department,
Ministry of Finance

GUINEA

Mr. Tahirou Diallo
First Secretary,
Permanent Mission to the UN, New York

GUINEA-BISSAU

1. H.E. Mr. Nelson Gomes Dias
Secretary of State for Planning

2. H.E. Mr. Boubacar Toure
Ambassador/Permanent Representative
to the United Nations, New York

3. Mr. Pedro Fernandes
Director of International Organization,
Ministry of Foreign Affairs

LESOTHO

1. H.E. Dr. Moeketsi P. Senaoana
Minister of Finance and Planning

2. Mr. Esselen Motlatsi Matekane
Principal Secretary,
Ministry of Economic Planning and Development

3. Mr. Mosito Khethisa
Finance Officer
Ministry of Finance

LIBERIA

1. H.E. Mr. Wilson K. Tarpeh
Minister of Finance

2. HON. Mr. Vinton David K.
Governor, National Bank of Liberia

3. H.E. Mr. Hansford J. Charles
Adviser to the Chairman of the State Council

MALI

1. H.E. Mr. Ibrahim Boubacar Keita
Prime Minister

2. H.E. Soùmaila Cisse
Minister of Finance and Trade

3. Mr. Namala Kone
Director of Public Debt

MAURITANIA

1. H.E. Mr. Taki Ould Sidi
Minister of Planning

2. H.E. Mr. Diakite Mamadou
Director of Consular and Legal Affairs,
Ministry of Foreign Affairs

3. Mr. Mohamed Lemine Ould Deidah
Counsellor to the Minister of Planning

MOZAMBIQUE

1. H.E Dr. Eneas da Conceicao Comiche
Minister of Finance

2. Mr. Gabriel Fabiao Mambo
Head of Public Debt,
Ministry of Finance

3. Ms. Esmeralda Gloria Fernandes
Director of External Debt and Exchance Control,
Bank of Mozambique

MYANMAR

1. H.E. Brig.Gen D.O. Abel
Minister for National Planning and Economic Development

2. H.E. Mr. U Nyi Nyi Than
Ambassador,
Embassy of Myanmar, Jakarta

3. Mr. U Thein Aung Lwin
Director General,
Foreign Economic Relations Department,
Ministry of National Planning and Economic Development

4. Mr. U Tin Win
Deputy Director of
Foreign Economic Relations Department,
Ministry of National Planning and Economic Development

NIGER

1. H.E. Mr. Seini Abdoukarimou
Secretary of State of Cooperation,
Ministry of Foreign Affairs and Cooperation

2. Mr. Tidjani Alou Mahaman Sanoussi
Chief of Division of the United Nations,
Ministry of Foreign Affairs and Cooperation

3. Mr. Saidou Salifou
Chief of Debt Exterior Service,
Ministry of Finance and Planning

SAO TOME AND PRINCIPE

Mrs. Gisa Maria Pergira da Costa Cardoso
Director of Debt Department,
Ministry of Economic Affairs

SIERRA LEONE

1. H.E. Dr. Abass Chernoh Bundu
Secretary of State for Foreign Affairs
and International Cooperation

2. Mr. Mohammed Bah Sallu
Director General,
Department of Foreign Affairs
and International Cooperation

3. Mr. Samuel O. Macarthy
Debt Management Expert,
Department of Finance

SUDAN

1. H.E. Mr. Ali Mohamed Osman Yassin
State Minister at
the Ministry of Foreign Affairs and
the Permanent Representative to the U.N

2. H.E. Mr. Salih Abdu Mashamoun
Ambassador of Sudan to Indonesia

3. Mr. Abu Baker Mohammad Salih Nur
Counsellor, Economic Department,
Ministry of Foreign Affairs

TANZANIA

1. H.E. Mr. Horace Kolimba
Minister of State Economic & Planning Commission/
The Secretary General of the Ruling Party (CCM)

2. Mr. Frederick Mallya
First Counsellor,
Permanent Mission of Tanzania to the United Nations, New York

3. Mrs. Nyasugara P. Kadege
Assistant Commissioner for Debt Management,
Ministry of Finance

4. Mr. Nyandallo M. Mboyi
Director for External Sector to
the State Planning Commission

5. Mr. Ahmed Yassin Mdemu
Personal Assistant to the Minister of State

TOGO

1. H.E Mrs. Ekue Michele Dedevi
Minister for Trade, Prices and Transportation

2. Mrs. Lawson-Body Nadou Adjogbovie
Chief, Economic and Financial Relations Division,
Ministry for Economic and Finances

3. Mr. Akakpo Dossou Ofumi
Counsellor of Foreign Affairs,
Chief of Multilateral Cooperation Division,
Ministry of Foreign Affairs and Cooperation

UGANDA

1. H.E. Mr. Mathew Rukikaire
Minister of State of Finance and Economic Planning

2. Mr. Christopher M. Kassami
Deputy Secretary to the Treasury

3. Mr. Odaga Jalomayo
Official,
Ministry of Foreign Affairs

4. Mr. Simon Rutega
Economist,
External Debt Management,
Central Bank of Uganda

ZAIRE

1. H.E. Mr. Mukulumanya Wa N'gate Zenda
Vice Minister of Foreign Affairs

2. Mr. Juma-Alfani Mpango
Director of International Organizations,
Ministry of Foreign Affairs

3. Mr. Mangaya Yange
Diplomatic Adviser
Ministry of Foreign Affairs

4. Mr. Kitenge Nkumbi Kasongo
Charge d'Affaires a.i.
Embassy of Zaire, New Delhi

ZAMBIA

1. Hon. R. Penza, MP
Minister of Finance

2. Mr. Enock Kavindele
Chairman, Economic and Finance Committee

3. Mr. Donald Chanda
Special Assistant to the President (Economic Affairs)

4. Mrs. Stella Momba Chibanda
Deputy Director of Loans and Investment,
Ministry of Finance

5. Mr. Peterson Monga
Senior Economist,
Ministry of Foreign Affairs

OBSERVERS:

NICARAGUA

1. H.E. Jose Marques Ceas
Vice Minister of the Central Bank of Nicaragua

2. Mr. Werner Ahlers S.
Director General for External Debts,
Ministry of External Cooperation

3. Mr. Henry Jose Lopez Mendoza
Head of Departement of Asia Africa,
Ministry of Foreign Affairs

UNITED NATIONS

1. Mr. Rafeeuddin Ahmed
Executive Secretary UN-ESCAP/
Special Representative of the UN Secretary-General

2. H.E Mr. Budimir Loncar
Special Representative of the UN Secretary-General to NAM

WORLD BANK

Mr. Dennis N. de Tray
Director,
Resident Representative World Bank, Jakarta

INTERNATIONAL MONETARY FUND (IMF)

Mr. N.E. Weerasinghe
Director,
Resident Representative IMF, Jakarta

ASIAN DEVELOPMENT BANK (ADB)

Mr. Tom Crouch,
Senior Economist,
Resident Representative ADB, Jakarta

SOUTH CENTRE

Dr. Branislav Gosovic
Principal Officer

NAM ADVISORY GROUP ON DEBT

1. Dr. Gamani Corea,
Chairman

2. Dr. Henock Kifle

Annex II

Statement by Mr. Gamani Corea

INTRODUCING
THE REPORT OF THE NON-ALIGNED MOVEMENT
AD HOC ADVISORY GROUP OF EXPERTS ON DEBT 1/

Mr. Chairman, Honorable Ministers, Excellencies, Ladies and Gentlemen,

Let me first say how honored and privileged I feel to be asked to be present today at the opening of your deliberations, and to introduce to you the report of the Ad Hoc Advisory Group on Debt, which was set up under the auspices of the Non-Aligned Movement. I want to take the opportunity to express, on behalf of our group and on behalf of all those who have been associated with our report, our deep thanks and appreciation to the Government of Indonesia for all it did to facilitate our work and to make the presentation of this report possible.

You have received this report only last evening, some of you perhaps only this morning. Mindful of that, I will endeavor essentially to present to you a broad overview of its contents so as to help you in the discussions and deliberations to follow.

As you are all aware, somewhere in the early 1980s and the mid 1980s there surfaced a debt crisis which attracted international attention. That was a crisis which essentially embraced a number of the larger middle income countries of Latin America, whose debts were primarily to the private banking system. After many years of effort and endeavor, the international community, the creditors, and the debtors have succeeded in overcoming the harsher aspects of that crisis. There is now some indication of a turn around in the situation of these former heavily indebted countries with the resumption of capital flows and a return to more vigorous growth rates. There are still uncertainties. There are still difficulties which persist in this area. But, by and large, there is a broad perception that the more acute aspects of the debt crisis of the 1980s is now largely over.

We were concerned in our group that this perception of a problem partially overcome would not lead to any complacency about the persistence of the debt problem which continues to affect to this day a large, and I'm unhappy to say, an

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1/ Introducing the report of the NAM Ad Hoc Advisory Group of Experts on Debt, entitled "The Continuing Debt Crisis of the Developing Countries", to the Ministerial Meeting of Non-Aligned Countries on Debt and Development: Sharing of Experiences, Jakarta, 13-15 August 1994, by Dr. Gamani Corea, Chairman of the Advisory Group.

increasingly large number of countries. The debt crisis of the 1990s is in many ways different to the debt crisis of the 1980s. It affects not so much the middle income countries, but essentially the poorest of the countries of the world -- many of them, indeed most of them, the least developed countries. The crisis of the 1990s is not essentially a crisis arising out of debts due to the private banking system. It is a crisis due to debts of other kinds, essentially debts due, not only to the private banking system, but to official creditors, both bilateral and multilateral.

We were anxious to assess the magnitude of the current debt crisis. Our first task was to attempt to identify, as usefully and precisely as we could, the number of countries that could be said to be in continuing crisis today. Many criteria have been adopted in the past, giving somewhat different results. We were mindful of the value of some of these conventional criteria, such as the ratio of debt to gross national product or the ratio of debt service payments to exports. It is possible to highlight the problems of a number of countries using such yardsticks alone.

But we felt that in addition to that, there was another yardstick which was becoming increasingly pertinent in the present context. And that is that these countries are experiencing not only a heavy strain on their resources in their attempt to manage their debt problems, but are actually reaching a point that they were unable to undertake the regular servicing of their debts. The phenomenon of arrears in debt service payments has emerged with striking force in recent years. We estimated that on the criterion of actual arrears in meeting debt services obligations, taking arrears in excess of 20 percent of these obligations, there were as many as 55 to 60 countries which can now be described as being countries suffering extreme embarrassment in regard to their debt service situation, embarrassment which has gone to the extent of making it impossible or difficult for them to service their debts in full.

We are of course aware that the criterion of arrears is not necessarily an exclusive and a final criterion. It may be combined with other yardsticks. But, by and large, it is true to say that countries get into arrears when they have reached virtually the limits of their difficulties. Maybe, there are some cases where arrears reflect other factors. But, by and large, countries that are in arrears are those which are forfeiting a good deal of the confidence of the international community, forfeiting their ability to mobilize new resources on a significant scale.

So we felt that this yardstick of arrears does convey a convincing message. It is an objective yardstick. It is a fact; and on that yardstick alone, we were ourselves surprised to find that the number of countries qualifying as being seriously indebted is as large as 55 to 60. This figure has been left as a range because there are a few countries for whom data is still not complete, but where we feel that on the basis of all other indications they belong to this category. So the incidence of the debt crisis is now widespread.

As I said before, the 55 to 60 countries comprise largely the poorest of the countries in the world. About 32 of them are least developed countries. That is 32 out of a total of 47 countries designated as least developed by the United Nations -- almost two thirds of the total.

A large number of them are in the African continent. The bulk of them, in fact, are in Africa. There are some in Latin America and the Caribbean and a few in the Asian region, but the great majority of the 55 to 60 countries are those in the African continent.

Many of these countries are still experiencing negative per capita rates of growth. In our study, we estimated that some 29 countries have had negative per capita growth rates over the period of 1985 to 1992. There is another group of countries where growth rates, though positive, are minimal. All these countries need to be helped to return to a path of active and accelerated growth; and a primary condition of this is that there be significant and meaningful relief in respect of the debt burden which they are shouldering at the moment.

So we have tried first to estimate the number of countries. I should say that the figure of 55 to 60 countries is not very different from the figure arrived at by the World Bank and UNCTAD using different criteria. I think the World Bank's list of severely indebted countries was something like 50. UNCTAD came up with a list of countries something like 55 or 57. So the number of countries emerging out of our exercise is roughly comparable with and is not in stark contrast to estimates based on other criteria. This has given us added confidence in the accuracy and the value of the listing that we have done.

We should remember of course that though we are putting into focus the countries in arrears, those that are currently unable to satisfy in full their debt service obligations, there are also a significant number of countries which, though not in arrears, are paying their debts in extremely difficult conditions. They are making great efforts to satisfy their debt service obligations at the expense of their growth rates, at the expense of investment, at the expense of

consumption, and at the expense of the well-being of their peoples. So the debt problem is a large one. Its most strident and urgent facet relates to these 55 to 60 countries. But there is also another group of countries that should not be forgotten. They may be now servicing their debts; but they are doing so under conditions of extreme difficulty.

The next issue that we addressed in our group, having identified the number of countries and the individual countries in the total, was that of the kind of relief that should be afforded, the kind of relief needed by these countries. One of the first conclusions that we arrived at was that what these countries need in the context of their present difficulties is not just a rescheduling of debts, a reorganization of debts through a postponement of interest and amortization payments which results in difficulties for the future, but an actual reduction in the stock of their debt. This was a conclusion that was also arrived at in connection with the debt of the middle income Latin American countries that were in crisis in the 1980s. After many attempts at rescheduling, it was found that one needed to go further and to bring about an actual scaling down in the stock of debt itself. For the countries in crisis today, the scaling down of the stock of debt is, in our view, an imperative.

The next question is how much of scaling down? To what extent should these countries be afforded relief in respect of their debt service burden and in respect of their total indebtedness. Here again, many yardsticks are possible and should be applied. We do not feel that there is one universal way in which one can automatically say: this is the extent of relief which would be needed in common by all the countries in this group of severely indebted countries. But we found that if there is to be a reduction in the stock of debt, a scaling down of the total of these debts, this reduction needs to be substantial. It cannot be modest, it cannot be marginal, it cannot be just symbolic. It has to be of such a magnitude that affords meaningful relief to the countries concerned.

What, we asked ourselves, would be the order of magnitude of a significant effort towards a reduction in debt? We were guided here by many criteria; and particularly by the fact that, in the case of the Latin American countries, a useful yardstick which governed in part the measurement of the relief needed was the actual extent to which the market was discounting the face value of the debts of these countries. Latin American debts at that time was being discounted by markets to the extent of about 35 percent of their face value. And finally, and I don't think that this is a total coincidence, the ultimate relief afforded to these countries worked out to a reduction in their total stock of debt of the order of magnitude of 30 or 35 percent or so.

Using a similar measurement, a similar yardstick, we found that in accordance with the data available, where the market had the opportunity to express itself on the value of the debts of the developing countries in our list, the extent of discounting by the market was around 70 percent. In other words, where the paper of the countries did have a commercial price, this price represented a value of about 30 percent of its face value, a reduction, that is, of 70 percent. Hence we thought that, with the experience of the Latin American exercise to guide us, a 70 percent reduction in the stock of debt of the 55 to 60 countries is a good measure of the broad order of magnitude that will be needed on average to bring meaningful relief to the countries concerned.

Now I must hasten to say that though we have presented this 70 percent target as an indication of the extent of the relief needed, we did not intend that this be applied in a mechanistic, automatic, way to each country without discrimination. The 70 percent figure is a guideline. It is an indication of what the total result should look like after the exercise in debt reduction is over. But we have been mindful of the fact that each country's problem is different and that a solution applicable to individual countries cannot be formulated outside of a case-by-case approach. So we have not suggested that every country's debt be written off by 70 percent. Some countries' debt may need to be written off by more than 70 percent. Other countries may get relief meaningfully with less than a 70 percent reduction. But we felt that at the end of the day, when the exercise has run its course, the international community would be able to take satisfaction if the total amount of relief given to all these 55 to 60 countries averaged about 70 percent. So I want to emphasize once again that the 70 percent figure is not an alternative to a case-by-case approach to determine the situation country-by-country and each country's need for debt reduction.

The third issue that we had to address was how the different kinds of debt that make up the aggregate indebtedness of developing countries would need to be dealt with. As I said earlier, the bulk of the debts of the Latin American countries were debts owed to private creditors. And much of the experience of scaling down and reorganizing these debts was related to interactions between the private creditor communities and the debtor countries with the intervention of the governments of the creditor countries.

There is still a significant extent of private debt owed by the 55 to 60 countries. But the bulk of the debt owed by these countries is not debt owed to private creditors; it is essentially debt owed to official creditors. Private debts account, I believe, for about 25 percent of the total debts of the 55 to 60 countries. Official debts, both bilateral and multilateral, make up about 75

percent. Official debts owed to governments are about 49 percent of the total. And official debts owed to the multilateral institutions are about 26 percent of that total. So we have three actors in the creditor community: the private banks, creditor governments and the multilateral institutions.

It was our feeling that any sound and meaningful effort to reduce the total stock of debt of developing countries must embrace each of these categories of debts: debts to private creditors, debts to governments and debts to multilateral financial institutions. Actions to reduce debts of one kind would not suffice. Basically, they would only release resources to help countries to service debts to other kinds of creditors and would not bring about the kind of relief that is needed. It was clear to us that any initiative to act on the debt problems of the developing countries must embrace each of these creditors.

Now there has already been some experience in reorganizing and reducing debts owed to private creditors. This was the essence of the Latin American story. There has also been quite a good deal of experience of debt reduction undertaken by governments -- the writing down or writing off of debts to developing countries, particularly to the poorest and to the least developed countries. This started way back in the 1970s, when, at UNCTAD, it was decided to reduce the official debts of a number of the poorest countries. Since then there has been a number of initiatives undertaken by the donor community to carry further this process of debt reduction. The various initiatives have been well-known and have been welcome. And most welcome is the recent announcement, following the summit of the G7 countries in July in Naples, to carry out further measures to write down the official debts of the developing countries.

We have to welcome this. We have to encourage this process and to recognize the contribution it makes to the debt problems of developing countries. But at the same time, we have to underline the fact that this by itself would not suffice. In many ways these countries are not paying much of their debts to bilateral official creditors; their debt servicing is channeled in a preferential way to the private creditors and to the multilateral financial institutions. Giving relief to debts that are not being serviced anyway may be significant. It will strengthen the long term position of the debtors, but it will limit the immediate relief they will get because these are not the debts that account for the bulk of service payments. So we feel that, in addition to the efforts made by donor governments, there is a need to bring in the other groups of creditors: the private creditors and the multilateral financial institutions.

Now in regard to the multilateral financial institutions, any suggestion to engage them in a process of debt reduction pertaining to debts owed to them would be breaking new ground. In many ways the debtors themselves have treated the multilateral institutions as preferred creditors. Even when they get into arrears, the incidence of their arrears is greatest in respect of their debts to bilateral creditors, and much less in regard to the debts owed to multilateral institutions and to private creditors. So we think that because of this disparity in the pattern of arrears, the pattern of debt servicing to these classes of creditors, relative to the distribution of the stock of debts owed to them, there is an added reason why the debt reduction exercise must be comprehensive and embrace each of the three groups of actors.

Now, our group recognized that there are real problems in breaking new ground in the area of multilateral debt. The multilateral financial institutions raise their resources in the capital market. They have been able to do so because of their strong credit rating in these markets. And indeed, it would not be productive if the contribution they made by way of debt reduction is such as to jeopardize their image and their stature in these markets. We have given a lot of attention to this problem. We feel, however, that some ways have to be found in which the multilateral institutions can participate in debt reduction with little or no impact on their credit worthiness in capital markets.

We have suggested, for example, that the multilateral financial institutions might be able to finance part of the debt reduction they do by having recourse to their reserves, part perhaps by having recourse to a new issue of Special Drawing Rights, part managed by a conversion of credits to governments into credits to the private sector, and part also by other techniques such as debt swaps of one kind or another, all of which have some kind of precedent in other experiences.

We felt that if that were done, and if the worst debts to the multilateral institutions were written off, this would not jeopardize, this would not undermine, but on the contrary would enhance their strength in the capital markets of the world. So we would like to encourage the multilateral financial institutions to address themselves to how they might participate in the debt reduction process.

They have already made a contribution, of one kind of another. In some cases, they have converted non-concessional credits into concessional credits for some of the poorest countries. They have financed countries to purchase some of the debts owed to private creditors. But up till now, they have not directly

been active on the debts owed to the multilateral institutions themselves. This, I think, is the challenge that we have to face in the next phase, and the one factor which will bring about, or help bring about, a decisive improvement in the debt situation of the 55 to 60 countries that we have listed.

Our report has also addressed itself, and you will not be surprised to hear this, to the question of South-South interactions and South-South cooperation in the area of dealing with the debt problem. We feel that today the developing countries have had a lot of experience and have built up considerable expertise in dealing with the debt problem, in interactions with creditors in negotiation processes. We feel that much can be done to make this experience and expertise available to other countries now engaged in a similar process.

We have suggested that the developing countries might endeavor to win acceptance in the United Nations, or in some other appropriate forum, of a set of principles to guide the whole approach to debt reorganization: principles which include the principle of debt reduction as against debt rescheduling; principles which recognize the different instruments to be used and so on -- some kind of a framework against which individual efforts at debt reduction could be undertaken. At present there is no such framework, and every attempt at debt reduction is taken on an ad hoc, case-by-case basis. We want the case-by-case basis, but feel that it would be strengthened if it was brought within a wider framework of broad principles.

We also felt that something might be done to mobilize the expertise of developing countries to help provide technical assistance to each other in dealing with their debt problems. We suggested the value of a data base. We suggested the value of identifying and harnessing individuals who might be able to help developing countries at their request.

And I have been very encouraged that since we started our work, the Government of Indonesia has already taken the initiative to designate a number of leading personalities with vast experience in the management of debt problems to help in the dialogue with other developing countries and to assist them in managing their debt problems and their debt negotiations. I think that this is a very propitious beginning, and I want to express, on behalf of all the members of our group, our deep appreciation of this action. It is something new and something that is immensely welcome.

We welcome also the convening of this meeting which is in a way an indication of South-South cooperation. Some years ago the South Commission,

of which I was a member and Professor Widjojo was a member, recommended that the developing countries should have more opportunities to exchange views. That opportunity was also absent at that time. We in fact suggested the establishment of a Debtors Forum, not to get into confrontation with the creditors, but to help developing countries share their experiences and find common approaches and ways of helping each other.

Up to now there was no action to follow up that suggestion for a Debtors Forum, and this, I believe, is the first time that the developing countries have been brought together at the ministerial level to share their experience in the area of debt. I think that this too is a very encouraging development in the area of South-South cooperation.

There is a third aspect of South-South cooperation which our report referred to. That is the need to deal also with intra-South debts, because some parts of the debts of developing countries are owed to creditors that are also developing countries. There has been a varied experience regarding these debts. There have been very encouraging cases of generous treatment and reductions of debt. There are also cases in which progress has been more slow. And we thought that it would be a good symbol of South-South cooperation if debt reduction and debt reorganization is universal and embraces intra-South debts as much as South-North debts. We feel that what is done in the intra-South context could serve as a model, an example, and an encouragement to the debtors and to the creditors among the developed countries.

Finally, Mr. Chairman, I should say that our report broadly addressed itself to two issues: the lessons to be drawn from the past, and the lessons to be applied for the future. One of the conclusions that we underlined in our report is that, contrary to popular belief that the debt problems of developing countries have their origin largely in the policy lapses of the developing countries, the misuse of resources, and the raising of resources on unfavorable terms, a good part of the debt crisis is, in fact, related to the adverse turn in the external economic environment which these countries experienced in the 1980s and the early part of the 1990s. Much of the difficulties of debt servicing had their origin in the collapse of commodity prices, the increasing constraints on resource flows, the rise of protectionism, fluctuations in exchange rates, increases in interest rates and so on, all of which were part of the global economic scenario, but which had their impact in a devastating way on the ability of debtor countries to service their debts. So we thought that it was important to point out that while there were multiple causes of the debt problems of individual countries, some of them internal, there is also the factor that the

drastic change in the external environment of the 1980s served to precipitate and accelerate the debt crisis. Had the external environment been different, been strong, more robust, then the debt problems of the developing countries, I certainly feel, would have been less severe and less intense.

For the future, therefore, we concluded that there are a number of lessons to bear in mind. Once we make an effort to bring immediate relief to the countries affected, we have to make sure that there is no reoccurrence of these problems within these countries, and that they will not reach out to a new group of countries in the period ahead. One imperative is, of course, that there must be a continued flow of resources, new resources, to these countries, on adequate and appropriate terms. In a situation in which resource flows themselves are drying up because of other competing claims, the ability of the developing countries to mobilize the resources they need will be gravely impaired. I feel that one important aspect of the avoidance of future debt problems is to strengthen the basis for future resource flows. This must include the contribution made by the multilateral financial institutions themselves in making resources available on appropriate terms and in ways that help the developing countries to participate in the decision making processes of these institutions.

Secondly, we felt that the sound management of debts in the future would require balanced, sound, domestic financial policies. There is no going behind that. Developing countries can make mistakes and we should do our best to avoid or minimize these mistakes. We pointed out, however, that the package of conditionality that has been associated with the attempts to manage debt problems has some dimensions which are good, but others that are somewhat ideological in tone, and still others that perhaps impact too heavily on the social situation of the developing countries. We felt that one should adjust this conditionality package, and in that process draw on the views and experiences of the developing countries themselves. We feel that the developing countries themselves have a stake in the content of their own policies, and that they should be given the opportunity to take part in the debate in regard to what this conditionality should be, more of an opportunity than they have been given up to now.

Then finally, we also felt that what we need is a world free -- not of debt, because that is not our objective, since that would mean a world free of borrowing -- but free of debt crises. A world free of debt crises requires good actions with regard to the management of debt, but it also requires a sound external economic framework. I think that for the future if debt problems are to be minimized, much will depend on the extent to which the global community

and the industrialized countries in particular, succeed in restoring dynamism and expansion into the world economy because this, more than anything else, will strengthen the resource base of developing countries and minimize the burden of their debt problems.

So, in brief and broadly, Mr. Chairman, these are the essential highlights of our report, the main conclusions. I know that you have not had much time to read this report because it was only made available to you last evening or this morning. But I still hope that what we have said there and the kind of background I have been able to give will serve as a backdrop to your own discussions and help you in your deliberations.

I have, before I conclude, the duty of expressing once more our thanks to all those who helped our group, and particularly to the Government of Indonesia. I would like, specially, to thank Professor Widjojo, who was a member of our group and without whose efforts and interest this report would not have been available in time for today's meeting. So I want to express our heartfelt appreciation and thanks to him. Above all, I wish to express our appreciation to the President of Indonesia for the magnificent lead he has given in highlighting the debt problem and in bringing it to the attention of the world community.

I thank you very much.

Annex III

THE CONTINUING DEBT CRISIS OF THE DEVELOPING COUNTRIES

Report of the Non-Aligned Movement Ad Hoc Advisory Group of Experts on Debt

EXECUTIVE SUMMARY

Seven major conclusions follow from this study:

Continuing debt crisis in low- and lower-middle-income countries

First, the international debt crisis that emerged in the early 1980s clearly changed character at the turn of the decade. Three major developments have taken place in the past five years. The debt crisis affecting some of the larger developing countries, particularly in Latin America, has largely receded. At about the same time, the USSR and later on its former component states, have emerged as major international debtors in crisis. But the most devastating crisis has been the rapid deterioration of many low- and lower-middle-income developing countries, resulting from a rapidly growing burden of external indebtedness.

The severe difficulties that many developing countries faced in servicing their debt resulted in the persistent accumulation of arrears, which are unpaid debt service obligations. Despite repeated rescheduling, many developing countries have not been able to meet their debt service obligations fully and on time for several years.

During the early 1990s between 55 and 60 developing countries faced serious debt servicing difficulties, with arrears in excess of 20 percent of scheduled debt service. In 1992 among 58 countries with arrears exceeding 20 percent, more than three quarters had arrears exceeding 50 percent, half had arrears larger than 75 percent, and more than a quarter had arrears in excess of 90 percent.

Of the 58 heavily indebted countries in 1992, 32 were classified as least developed countries. Since 47 countries are designated as least developed by the United Nations, two-third of all least developed countries are presently facing serious debt problems. The actual arrears of the 32 least developed countries were much larger than the 20 percent threshold: 91 percent had arrears exceeding 50 percent, half had arrears exceeding 86.7 percent, and 39 percent had arrears in excess of 90 percent.

Of the 58 countries in 1992, 35 had a level of per capita income ranging from US$ 60 to US$ 650. Their income levels worsened over time as many experienced negative growth rates: 29 countries had real per capita growth rates between -7.8 percent and -0.1 percent between 1985 and 1992, while 15 countries grew between 0 percent and 2 percent annually.

Taking a longer time span, 23 developing countries had continuing arrears in excess of 20 percent during the 10-year period from 1983 to 1992. Their average arrears was 56.5 percent in 1983, increased to 71.3 percent in 1986 and reached 91.7 percent in 1992.

Arrears are a key indicator of the intensity of a developing country's debt burden, because of their undisputed nature as actual facts. If a country is in arrears it is a clear sign that its debt service is beyond its capacity to pay. There may be cases in which arrears occur because the debtor is unwilling, rather than unable, to pay. But such cases are rare. Arrears bring economic development to a halt. Countries with large arrears cease to be eligible for development loans; trade financing frequently ceases altogether; and creditors may take retaliatory measures in finance and trade.

While using arrears as the key indicator of the debt burden of developing countries is appropriate, it should be kept in mind that there are developing countries with serious debt problems which, nevertheless, do not have arrears on their debt service payments. These countries refuse to incur arrears, in order to assure continuing access to market borrowing. Thus, countries with large arrears definitely have serious debt problems. But some countries without arrears may have serious debt burdens also.

Need for debt reduction

Second, the ability of these heavily indebted countries to resume economic growth through additional domestic savings and investment, repatriation of domestic capital, and new foreign capital inflow are constrained due to the 'overhang' of existing debt which makes new investors reluctant to resume activity in the fear that they will soon share in defaults with the creditors on old debt. The need for debt reduction in heavily indebted developing countries is accentuated further by darkened prospects for resource inflows from official sources due to rising competition for public funds from the 'transition' economies in Eastern Europe, and to deterioration of the economic position of some other developing countries. The difficulties that Eastern European and other developing countries have faced in borrowing from the international markets and their recourse to official

development finance has tended to reduce the supply of such finance to the heavily indebted developing countries. All this has come in the face of enormous accumulated demand for replacement and modernization of worn-out equipment, as well as additional new investment required to keep pace with population growth and installation of new technologies, after more than a decade of depressed investment and maintenance due to the debt crisis and the commodity slump.

Depth of debt reduction

Third, debt reduction needs to be sizeable to make a difference to the economic future of low-income and lower-middle-income debt-affected countries. Experience has shown that mere debt rescheduling in the case of these countries aggravates the problem quickly due to interest-on-interest effect. The pressure on debt servicing capacity and its future prospects are reflected in heavily depressed prices of debt instruments of low- and lower-middle income countries in the secondary market and in negotiated buy-outs of their debts owed to commercial creditors. The average discount works out at about 70 percent off face value, equivalent to the debt price of 30 cents on the dollar. The existence of market discounts was a major factor in the decisions to scale down the Latin American debt to commercial banks through the Brady Plan and the degree of debt reduction followed the market to a considerable degree.

Scaling down the debts of low and lower-middle income heavily indebted developing countries by 70 percent on the average, would seem to be an appropriate objective to be aimed at in international debt policy in view of their poverty and their high degree of dependence on depressed and frequently volatile export commodity markets. The 70 percent debt reduction, however, is not a single reduction target to be applied to every country, but an overall order of magnitude, applicable to the 55 to 60 countries taken as a group. Such an across-the-board review serves the purpose of highlighting the size of the problem and the scale of the strategic solution to be reached for. It cannot be a substitute for detailed work on debt settlement for individual debtor countries. In practice, debt reduction would need to be negotiated on a genuine case-by-case basis, taking into account the individual country capital requirements over the medium term and the likely debt servicing capacity over the long term, in addition to the debt market price, or, if the latter is not available, prices of debts of other countries in similar circumstances. This will lead, among different debtor countries, to different scales of debt reduction and differences in interest and amortization terms on the reduced debt.

Comprehensive approach to debt reorganization

Fourth, debt reduction would have to be applied to all three major classes of creditors: bilateral official creditors, private sector lenders, and multilateral creditors. Applying the reduction to only one class of debt, such as debt owed to official bilateral creditors, which has been the practice so far, would not result in a sufficient effective aggregate debt service reduction. In the first place, a considerable part of debts owed to official bilateral creditors is not being serviced anyway at present. In the second place, the debts owed to international financial institutions and to private creditors represent a sizeable proportion of total debt, and, particularly in the case of international financial institutions, a sizeable proportion of total debt service. The proposed reduction of debt claims of international financial institutions would break new ground in international financial relations, but it seems inevitable and in a sense desirable. It is inevitable because, even though the international financial institutions enjoy a de facto status of "privileged creditors", arrears of debt service owed to them are growing rapidly, from less than US$ 1 billion in 1982 to US$ 7 billion in March 1993. As of mid-1993, 26 heavily indebted countries, or almost two-fifths of the total number, were in arrears on debt service to the multilateral creditors. The reduction of their claims is desirable as it would clean up the balance sheets of these institutions.

The World Bank recently announced a decision to review its country project portfolios in order to eliminate or restructure those in poor state, following a study which had shown a deterioration in the success rate of Bank-financed projects and programmes. A corollary of this project pruning activity would seem to be a recognition that a similar pruning should take place in the portfolio of loans used to finance poor, reduced and abandoned projects. This would make the finances of the international financial institutions more transparent and ltimately stronger. It must be recognized, however, that restructuring the balance sheets of these institutions and the corresponding write-offs of assets are not a simple operation and efforts should be made to maintain their good standing in capital markets so that they can remain large and hopefully growing suppliers of funds for development. A partial use of reserves, perhaps combined with a special issue of Special Drawing Rights (SDRs), a partial conversion of debt into equity, perhaps with the participation of other organizations, and a special arrangement with debtor countries which would spread out the writing-offs over an agreed number of years, are options which may be examined. The situation will vary from lending institution to institution,

and their specificities would have to be taken into account in designing the needed remedies.

South-South cooperation

Fifth, three areas for action through South-South cohesion and South-South cooperation could be pursued. There is scope to formulate and gain acceptance of the guiding principles for an international approach to the debt problem. They include recognition of the need for debt reduction rather than debt rescheduling, the use of instruments such as debt discounts and debt write-offs, and the role of domestic policies pursued by debtor countries. The developing countries may draw up a statement of operational principles to be negotiated and adopted at a universal forum such as the United Nations. There-after, it serves as a frame of reference for dealing with future debt crises and replaces the present ad hoc approaches and improvisations.

The second area of South-South cooperation is the mobilization of financial expertise of the South. Cooperation can be done through bilateral South-South relations or through a coordinating centre, which provide networking and the creation of data bases to which developing countries could have access. Other forms of cooperation may include the following: dialogue among senior officials of developing countries on negotiating experiences on debt, aid and conditionalities; developing mecha-nisms for monitoring and analysis of debt negotiations and conditionalities for further dissemination to negotiators in the South; and conducting training courses on debt negotiations. The Chairman of NAM has appointed a group of high-level representatives to provide advice and assistance to debt-affected countries that may wish to have it.

The third area of South-South cooperation concerns intra-South creditor-debtor relations. A number of developing countries are debtors to other developing countries. Some notable cases of creative South-South cooperation in this respect have occurred. The settlement of intra-South debt and possible restructuring are matters to be arranged between individual debtors and creditors. But the terms of settlement of intra-South debt will have an effect on the terms of settlement of developing country debt to industrial country creditors. Therefore, the issues involved have a South-South aspect that is more than bilateral.

Change in institutional arrangements for debt reorganization

Sixth, present institutional arrangements for dealing with debt problems are both inefficient and inequitable. The Paris Club of OECD

creditor governments reschedules and reduces official bilateral debt. The London Club of ad hoc steering committees of commercial banks reorganizes commercial bank debt. Implicit rescheduling and refinancing of multilateral debt has been agreed upon among Executive Directors of the World Bank. These separate fora operate in an uncoordinated fashion among themselves and with insufficient regard to decisions on new capital inflow and its prospects. Lack of coordination increases enormously the administrative and transactions costs for the borrowers-debtors and is inimical to the treatment of their economic problem in an integrated and comprehensive manner. At the same time, the entire process is inherently unjust: most of the meetings are prepared, staged and managed exclusively by the creditors.

It is proposed that serious consideration be given to a change in this set-up. The country debt meetings should be run and managed jointly by creditors-donors and by the debtor, and the latter should be supplied by technical support of its choice, as required. Preparatory work should also be done jointly, and the details of decisions made at the debt meeting should be agreed upon in discussions between individual creditors and the debtor as well.

Debts to all classes of creditors would be handled at the proposed unified country debt meeting which would replace the existing separate fora.

Some lessons for the future

Seventh, while the immediate attention will, and should be, focused on the urgent issue of reducing the debt burden of the debt-affected countries, thought should be given also to some key points of international debt strategy and policy to prevent recurrence of widespread debt crises in the future. Much can be learned from the experiences of the 1970s and 1980s. Three areas of future action seem indicated. In the first place, the loanable resources, and lending activities, of international financial institutions need to be increased, progressively and steadily. All effort need to be made to attract direct foreign investment to a maximum extent possible; and also, there is nothing wrong with borrowing from the international capital market, provided right projects are selected and properly designed, and macro-policies avoid price distortions and over-heating of the economy. But it must be recognized that international capital is unstable: it may dry out for reasons which have little or nothing to do with the developments in the capital importing country, but responds to turning points in the business cycle and to shifts in domestic policies in developed countries, which may lead to drastic changes in domestic interest rates and liquidity. A review of

future needs for transfer of resources for development and the role of international financial agencies in it, seem to be appropriate subjects for study and discussion leading to possible action in the near future.

In the second place, improvements in internal management of developing countries are necessary, both in handling projects and operating government enterprises, and in macro policies as they affect major markets, foreign trade and capital flows. These improvements, to be effective, must be domestically generated and formulated, and seen to be such: the borrowing countries must 'own' the programmes they are expected to implement. The recent "explosion of conditionality" is not conducive to effective cooperation between capital exporting countries and agencies, and capital importing countries, and should be reversed. A reform of conditionality doctrine, practices and modalities is needed. The right of creditors to be concerned with developments and policies of their debtor cannot be denied; nor can the need for adequate policies in debtor countries' own interest. On the other hand, the responsibility for these policies and their results belongs to the government of the country, not to outside powers. Serious work is urgently needed to find the line of compromise between these different considerations and interests.

In the third place, a better international economic environment is essential for the success of external borrowing. This refers in particular to levels and movements in international interest rates and exchange rates; to openness of international markets for goods and services; and to stabilization of commodity prices and earning -- they have been subject to an enormous downswing and sharp short-run fluctuations in the past fifty years, and especially during the last decade. In all these areas the developing countries need and are able to make substantial contributions in both thought and action essential for preventing future massive debt crises.